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845J.2614/6-861

8 JUN 1961

FOREIGN SERVICE DESPATCH

FROM : Amembassy ACCRA

769
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON

DEPARTMENT OF STATE A/CDC/MR
14 MAY 1982

June 8, 1961
DATE

REF : CERP, Section D, Item VII-A-1

REVIEWED BY _____ DATE _____

EMBSE DLF-3

For Dept. Use Only	ACTION	DEPT.	EXCEPTIONS DENIED AS INDICATED
	AF-5	INFO	Amb-1 FINR-7 E-7 Rep-1 IRA-11 B/FBC-3 FPC-1
	REC'D 6/12	OTHER	CIA-10 Com-10 IRS-3 FRB-3 INT-7 ABA-8
			AID-4 Army-4 Navy-4 B.B.C-6 USIA-4

SUBJECT: VOLTA RIVER PROJECT: President Nkrumah's Request for Statement on Akosombo Financing by July 1

There is enclosed (Enclosure No. 1) a copy of a letter dated June 8 from President NKRUMAH to Ambassador Russell requesting that "formal agreement" be reached among all parties concerned with the financing of the Akosombo power project and the VALCO smelter in time for an announcement to be made on July 1, the first anniversary of the establishment of the Republic of Ghana (and incidentally a week before President Nkrumah's departure for Moscow). [redacted] has explained orally to the Ambassador that the term "formal agreement" does not necessarily mean the actual signature of the VALCO agreements and the Akosombo loan agreements, but could take the form of an exchange of letters of intent or some similar correspondence. The Embassy's comments on the President's request were contained in EMBTEL 1420.

Also enclosed is a copy of a memorandum [redacted] of the major outstanding financial issue standing in the way of final agreement on the Volta Project. [redacted] not informed President Nkrumah of the details of this problem because of his fear that the President would react violently and accuse the World Bank, and possibly also the U.S. Government, of haggling unnecessarily.

For the Ambassador:

John Q. Blodgett
Second Secretary of Embassy

Enclosures:

1. Letter dated June 8, 1961.
2. Memorandum of June 8, 1961.

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JQBlodgett:dl
REPORTER

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ACTION ASSIGNED TO.	Sadberg	ACTION TAKEN	Morphy/Hoskins
NAME OF OFFICER & OFFICE SYMBOL	AFW	DATE OF ACTION	7-6-61
		DIRECTIONS TO RM/R	file

ACTION COPY — DEPARTMENT OF STATE

The action office must return this permanent record copy to RM/R files with an endorsement of action taken.

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Page 1 of
Encl. No. 1
Desp. No. 769
From ACCRA

Accra,
8th June, 1961.

My dear Ambassador,

Thank you for your letter of the 5th June, 1961, and the letter from the Secretary of State dated the 26th May, 1961, addressed to my Minister of Foreign Affairs. I am glad to receive this information about the progress of the Volta River Project in Washington, and I should like to express my appreciation for your Government's willingness to participate in the financing of the national grid.

I should like to take this opportunity of asking you to convey to your Government my earnest desire that formal agreement about the Volta River Project should be reached between the three Governments, the World Bank and Valco in sufficient time for an appropriate statement to be made on the 1st July, 1961, which will be the first anniversary of the establishment of the Republic of Ghana. By making the announcement on that day, which has such great significance to all Ghanaians, I am convinced that all the partners in the project would derive the best possible political effect. Furthermore, I shall, as you know, be going abroad within a few days of the celebration of the anniversary and I regard it as essential that there should be formal agreement between all concerned to go ahead with the scheme before I leave Ghana.

In view of the great interest which the United States Government has shown in the project, and which I greatly appreciate, I should be glad if in future you would communicate with me direct about the scheme, particularly during these next vitally important three weeks.

Yours sincerely,

/s/ Kwame Nkrumah

His Excellency Mr. Francis H. Russell,
Ambassador of the United States
of America,
Accra.

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Encl. No. 2
Desp. No. 769
From ACCRA

MEMORANDUM

June 8, 1961.

TO: The Ambassador

FROM: Mr. Blodgett

SUBJECT: Volta Project

[redacted] this morning to say that Ambassador Halm is extremely worried that the agreement in principle on VALCO financing, referred to in the Rusk letter, is being broken down by haggling at a lower level, particularly from the World Bank. He described the situation as follows:

The basic cost of the smelter with four potlines is $97 million. All parties agree that allowance should be made for an additional $31 million in escalation and contingency costs and the resulting total of $128 million has apparently been covered for political risks, etc.

The World Bank, however, has computed the normal contingency requirement at an additional $27 million over and above the $31 million. VALCO has apparently agreed to produce a financial commitment for $17 million of this on the understanding that the Eximbank will finance the other $10 million. So far, the Eximbank has not agreed to this and the agencies concerned with political risk guarantees have not agreed to provide coverage for this additional $27 million.

To further cloud the issue, the World Bank has pointed out that under the Master Agreement between VALCO and the Ghana Government, it is theoretically possible for VALCO to delay putting the final two potlines of the smelter into operation for up to 13 years (Article II, F (ii)). Whether or not the installation is delayed, however, VALCO is committed to buy power on a fixed and rising scale starting with the date the Akosombo Project is ready to generate power. The World Bank therefore argues that VALCO needs an additional $25 million to allow for this contingency over and above the other $58 million. VALCO has no idea where this money might come from.

[redacted] because he knows Nkrumah will react violently. [redacted] the U.S. Government can put on enough pressure to resolve this problem before Nkrumah hears about it, and at least by September. He assumes, however, that it will not be resolved by July 1 and that therefore any statement we may release on that date, or authorize Nkrumah to release, will have to be limited to a statement of intent and refer to certain details still to be worked out.

[redacted] informed Washington of Halm's intention to seek some kind of a commitment to provide the basis for the July 1 statement. He expressed hope that we had, or would, urge the U.S. Government to agree and to put pressure on the World Bank. I made no comment on that. He said he would be in all morning if you wished to talk to him.

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